

Operating in challenging times

It has been an extraordinary year; 2020 started in a positive mood following the decisive 2019 General Election result, though much of the UK's future relationship with the EU remained unclear. With a low vacancy rate, London continued to attract tenants across a wide variety of sectors and we forecast a stronger year for ERV growth supported by low interest rates and with the expectation that property yields might tighten.

Four key challenges in 2020 including a pandemic

With climate change having been a central concern of ours for some years, Brexit and the changing needs of occupiers were the other issues at the top of our agenda. However, the emergence of a pandemic in early 2020 and the restrictions that resulted to help control its impact have placed exceptional stress on many of our tenants and have affected our own business performance and behaviour too.

On page 8, we set out in the section called "A resilient business" nine important characteristics of our business which have helped us navigate these challenges over the last 12 months and which will provide us with resilience for the future.

Brexit

- The UK narrowly voted to leave the European Union (EU) in June 2016
- This created uncertainty over the UK's future trading relationships with the EU and other global partners
- The UK left the EU on 31 January 2020 with a transition period of 11 months during which intensive negotiations were conducted. A trade deal was agreed on 24 December 2020 which became effective on 1 January 2021
- The deal removes much of the uncertainty over trade and tariffs but has given rise to additional rules and paperwork
- Negotiations continue over the UK's financial services relationships with the EU. This could particularly impact the City and Docklands office markets though there have been relatively few job losses so far and London remains a global financial centre
- Trade deals are gradually being negotiated with other non-EU countries

Climate change

- Climate change is the defining issue of our time and will have much more significant long-term effects than Brexit or the Covid-19 pandemic
- It has continued to move up the agenda for office occupiers as well as for the population as a whole and there is increasing political action globally to shift behaviour and reduce emissions of greenhouse gases
- 2020 was one of the three warmest years on record, with a high number of weather-related disaster events
- On surveys of occupiers and potential occupiers, office buildings exhibiting outstanding environmental credentials are increasingly favoured while those with poor performance are less attractive

p.48

Responsibility - Environment



White Collar Factory EC1

Occupier trends

- We have seen occupiers challenge their office requirements even more through 2020 as the need for increased flexible working patterns has accelerated. This is leading to the establishment of a two-tier London office market
- Our product aims for outstanding design, adaptability and flexibility in use. We focus on space and light with generous ceiling heights, good access to public transport and value for money as well as excellent environmental credentials
- We believe the importance of good office space to improve collaboration, the development of ideas, teamwork and output productivity (rather than just the number of hours sitting at screens) is increasingly widely recognised

p.18 Central London office market

Covid-19

- The first cases of Covid-19 emerged in Europe in early 2020
- The impact has grown in waves through 2020 and into 2021 with the UK now on its third lockdown
- Covid-19 has become the single largest global health crisis seen in many decades and continues to be a significant risk with new strains emerging to place added pressure on the healthcare sector
- In relation to the London office sector, the lockdowns and other restrictions on movement and working practices have had a greater economic impact than the virus itself. In the long-term, it may take many years to recover from the reduction in jobs, the disruption to education and the closure of many retail and hospitality venues as well as the overall cost in GDP and government borrowing
- However, there is good evidence that the vaccines now being produced and distributed, as well as social distancing and more testing, will help to contain the virus and enable economic activity to bounce back relatively quickly

p.143 Covid-19: protecting our occupiers

A resilient business

Derwent London is built on a unique set of strengths which will enable us to meet these challenges and are described in more detail on the following pages.

- A Low leverage** p.8

- B Focus on earnings** p.8

- C Net zero carbon pathway** p.8

- D Product/'long-life loose-fit'** p.9

- E Balanced portfolio** p.9

- F Strong relationships** p.9

- G Support for our people** p.9

- H Consistency** p.9

- I Effective governance** p.9